

Funding of operations/Financial sustainability/Going concern

11. No significant financial or going concern difficulties were identified during our audit.

Qualitative aspects of accounting practices

12. As set out in accounting policy note 1 of the municipality's financial statements, the municipality has adopted the transitional provisions available in the Standards of GRAP.

Material losses/impairments

13. No losses/impairments were identified during the year under review.

Unauthorised/fruitless and wasteful/irregular expenditure

Fruitless and wasteful expenditure

14. As disclosed in note 34 to the financial statements, fruitless and wasteful expenditure in the amount of R45 398 was incurred, in the form of interest, penalties, bank charges and payments in court judgements.

Budgetary control

15. No material findings were identified during our audit.

Accounting discipline

16. No material findings were identified during our audit.

Financial indicators/ratios

17. No adverse financial indicators or ratios were identified during our audit.

Significant uncertainties

18. No material findings were identified during our audit.

Financial reporting systems

19. No material findings were identified during our audit.

Revision of the previously issued financial statements

20. The prior year's financial statements have not been amended and re-issued.

Accounting reforms

21. The municipality (low capacity) has adopted Standards of GRAP in the previous financial year. The challenges faced with the valuation/measurement of property, plant and equipment, investment properties, inventory, intangible assets and infrastructure assets still continue in the current year.

GOVERNANCE MATTERS

Material inconsistencies in other information included in the annual report

22. I have not obtained the other information included in the annual report and have not been able to identify any material inconsistencies with the financial statements.

Internal audit

23. Internal audit function did not develop a risk based audit plan and an internal audit programme nor was there evidence of quarterly reporting to the audit committee.

Audit committee

24. There was no evidence that the audit committee advised the municipality on matters of internal financial control and internal audit matters, risk management and other issues of governance nor did it review the annual financial statements submitted for audit.

Management of risk

25. The municipality did not undertake a risk assessment nor did it have a fraud prevention plan in place.

Prior year observations and recommendations addressed

26. Prior year findings and observations have not been adequately resolved.

Unavailability of key personnel

27. Key personnel were available throughout the audit.

Adequacy and competence of financial reporting personnel

28. Numerous errors were noted with regards to application of Standards of GRAP, thus indicating that financial personnel should undergo training in this respect.

Unavailability of expected information

29. Delays were experienced in the availability of expected information.

Late submission of financial statements

30. The financial statements were submitted on 31 August 2009.

Related parties

31. No material findings were identified during our audit.

Performance rewards

32. No material findings were identified during our audit.

Non-compliance with applicable legislation

Municipal Finance Management Act

33. The municipality did not have a listing nor invite prospective providers to apply for evaluation and listing as accredited providers.

Municipal Systems Act

34. Reports relating to oversight on the supply chain management process were not prepared nor were they made public.

SCOPA /Oversight resolutions

35. No resolutions were noted.

Key governance responsibilities

36. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Many of these have been addressed in detail above. The table below reflects how certain of the financial and governance matters as well as other matters included under the reporting on performance information below, will be reported in the auditor's report.

| No. | Matter | Y | N |
|---|---|--------------------------|--------------------------|
| Clear trail of supporting documentation that is easily available and provided in a timely manner | | | |
| 1. | No significant difficulties were experienced during the audit concerning delays or the availability of requested information. | | <input type="checkbox"/> |
| Quality of financial statements and related management information | | | |
| 2. | The financial statements were not subject to any material amendments resulting from the audit. | | <input type="checkbox"/> |
| 3. | The annual report was submitted for consideration prior to the tabling of the auditor's report. | | <input type="checkbox"/> |
| Timeliness of financial statements and management information | | | |
| 4. | The annual financial statements were submitted for auditing as per the legislated deadlines, as set out in section 126 of the MFMA. | <input type="checkbox"/> | |
| Availability of key officials during audit | | | |
| 5. | Key officials were available throughout the audit process. | <input type="checkbox"/> | |
| Development and compliance with risk management, effective internal control and governance practices | | | |
| 6. | Audit committee | | |
| | • The municipality had an audit committee in operation throughout the financial year. | | <input type="checkbox"/> |
| | • The audit committee operates in accordance with approved, written terms of reference. | | <input type="checkbox"/> |
| | • The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA. | | <input type="checkbox"/> |
| 7. | Internal audit | | |
| | • The municipality had an internal audit function in operation throughout the financial year. | | <input type="checkbox"/> |
| | • The internal audit function operates in terms of an approved internal audit plan. | | <input type="checkbox"/> |
| | • The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA. | | <input type="checkbox"/> |
| 8. | There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management. | | <input type="checkbox"/> |
| 9. | There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations. | | <input type="checkbox"/> |
| 10. | The information systems were appropriate to facilitate the preparation of the financial statements. | <input type="checkbox"/> | |
| 11. | A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used, as set out in section 62(1)(c)(i) of the MFMA. | | <input type="checkbox"/> |
| 12. | Delegations of responsibility are in place, as set out in section 79 of the MFMA. | <input type="checkbox"/> | |

| No. | Matter | Y | N |
|--|--|--------------------------|--------------------------|
| Follow-up of audit findings | | | |
| 13. | The prior year audit findings have been substantially addressed. | | <input type="checkbox"/> |
| 14. | SCOPA/Oversight resolutions have been substantially implemented. | <input type="checkbox"/> | |
| Issues relating to the reporting of performance information | | | |
| 15. | The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete. | <input type="checkbox"/> | |
| 16. | Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information. | <input type="checkbox"/> | |
| 17. | A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the Ulundi Municipality against its mandate, predetermined objectives, outputs, indicators and targets per section 68 of the MFMA. | <input type="checkbox"/> | |
| 18. | There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance. | <input type="checkbox"/> | |

Achievement of good practice indicators

37. The following good practices are the drivers of audit results. We have indicated our assessment of the municipality achievement of these good practices, based on the matters included elsewhere in this report.

| | Good practice | Y | N |
|---|---|--------------------------|--------------------------|
| 1 | Clear trail of supporting documentation that is easily available and provided timeously. | | <input type="checkbox"/> |
| 2 | Quality of financial statements and related management information. | | <input type="checkbox"/> |
| 3 | Timeliness of financial statements and management information. | <input type="checkbox"/> | |
| 4 | Availability of key officials during audits. | <input type="checkbox"/> | |
| 5 | Development and compliance with risk management and good internal control and governance practices. | | <input type="checkbox"/> |
| 6 | Leadership/supervision and monitoring. | <input type="checkbox"/> | |

38. Although key personnel were available throughout the audit to render assistance, significant difficulties were experienced with regards to availability of requested information. Further weaknesses were also evident, which indicates that the municipality should take adequate steps to improve the internal controls surrounding audit trails, compliance with risk management, governance and the monitoring of financial reporting in the financial statements and management information.

SIGNIFICANT FINDINGS FROM OUR REVIEW OF THE PERFORMANCE INFORMATION

39. No material findings were identified during our audit.

SIGNIFICANT FINDINGS FROM SPECIFIC FOCUS AREAS

40. No specific focus areas were subject to audit during the year under review.

INFORMATION ON AUDITS CONDUCTED OTHER THAN ON THE FINANCIAL STATEMENTS

Investigations

41. No investigations were conducted during the year under review.

Performance audits

42. No performance audits were conducted during the year under review.

Special audits

43. No special audits were conducted during the year under review.

RATINGS OF DETAILED AUDIT FINDINGS

44. For the purposes of this report, the detailed audit findings included in annexures A and B have been classified as follows:

- Matters to be included in the auditor's report.

These matters should be addressed as a matter of urgency.

- Other important matters – deficiencies that could adversely affect the entity's ability to initiate, record, process and report financial data consistent with the assertions of management on the financial statements and in accordance with the applicable basis of accounting. Unacceptable risk that errors and irregularities may occur that will not be prevented or detected by the internal controls in good time.

These matters should be addressed within the next 12 months.

45. Failure to address matters reported in a particular category may result in the matter being rated as more significant in the next financial year.

APPRECIATION

46. We would like to express our appreciation for the courtesy extended and assistance rendered by the staff of the Ulundi Municipality during the audit.

Yours faithfully

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Audit Committee Chair
Head of internal audit

SUMMARY OF AUDIT FINDINGS

| Page. no. | Finding | Classification | Control Component | Impact on audit report | | | | Other important matters | Administrative matters | Reported in previous years | In which years was it reported | | |
|---------------------------------------|--|----------------------|------------------------|------------------------|--------------------|---------------|----------------------------------|-------------------------|------------------------|----------------------------|--------------------------------|---------|---------|
| | | | | Qualification | Emphasis of matter | Other matters | Other reporting responsibilities | | | | 2007/08 | 2006/07 | 2005/06 |
| COMPLIANCE WITH LEGISLATION (NON-AFS) | | | | | | | | | | | | | |
| 15. | Inadequate management of risk | Compliance (Non-AFS) | Control activities | | | ✓ | | | | Yes | ✓ | ✓ | ✓ |
| 16. | Suppliers not properly accredited | Compliance (Non-AFS) | Control activities | | | ✓ | | | | No | | | |
| 17. | Internal audit function ineffective | Compliance (Non-AFS) | Control environment | | | ✓ | | | | Yes | ✓ | ✓ | ✓ |
| 18. | Audit committee not fully functional | Compliance (Non-AFS) | Control environment | | | ✓ | | | | Yes | ✓ | ✓ | ✓ |
| 19. | Oversight reports not prepared | Compliance (Non-AFS) | Monitoring of controls | | | ✓ | | | | Yes | ✓ | ✓ | ✓ |
| CASH AND CASH EQUIVALENTS | | | | | | | | | | | | | |
| 20. | Bank accounts not accounted for | Financial | Control environment | | | | | ✓ | | No | | | |
| 21. | No tender process for banking services | Value for money | Control activities | | | | | ✓ | | No | | | |
| 22. | Uncollected cheque expensed | Financial | Control activities | | | | | ✓ | | No | | | |
| 23. | Unpaid cheque register incomplete | Control | Monitoring of controls | | | | | ✓ | | No | | | |
| COMPLIANCE WITH LEGISLATION (NON-AFS) | | | | | | | | | | | | | |
| 24. | Fruitless and wasteful expenditure | Compliance | Control | | | | | ✓ | | Yes | ✓ | | |

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|-----------------------|---|----------------------|------------------------------|------------------------|--------------------|---------------|----------------------------------|-------------------------|------------------------|----------------------------|--------------------------------|---------|---------|
| | | | | Qualification | Emphasis of matter | Other matters | Other reporting responsibilities | | | | 2007/08 | 2006/07 | 2005/06 |
| | | (Non-AFS) | activities | | | | | | | | | | |
| 25. | Approval of the budget and the SDBIP not timeous | Compliance (Non-AFS) | Control activities | | | | | ✓ | | No | | | |
| 26. | Creditors not paid timeously | Control | Control activities | | | | | ✓ | | No | | | |
| 28. | Tariff bylaws not updated | Compliance (Non-AFS) | Control activities | | | | | ✓ | | No | | | |
| 29. | Municipality's website not up to date | Compliance (Non-AFS) | Information system and comm. | | | | | ✓ | | No | | | |
| 30. | Municipality's tariff policy insufficient | Compliance (Non-AFS) | Control activities | | | | | ✓ | | No | | | |
| 31. | Weaknesses over petty cash | Control | Control activities | | | | | ✓ | | No | | | |
| EMPLOYEE COSTS | | | | | | | | | | | | | |
| 32. | Changes to masterfile report not authorised | Control | Control activities | | | | | ✓ | | No | | | |
| 33. | Reconciliation of payroll to financial systems not reviewed | Control | Control activities | | | | | ✓ | | No | | | |
| 34. | Skills development levy differences | Financial | Control activities | | | | | ✓ | | No | | | |
| 35. | No reconciliations for third party payments | Control | Control activities | | | | | ✓ | | No | | | |
| 36. | Unissued cheque register not signed | Control | Control activities | | | | | ✓ | | No | | | |
| 37. | Payroll not certified by heads of departments | Control | Control activities | | | | | ✓ | | No | | | |

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|---------------------|---|----------------------|------------------------------|------------------------|--------------------|---------------|----------------------------------|---------|-------------------------|------------------------|----------------------------|--------------------------------|---------|---|
| | | | | Qualification | Emphasis of matter | Other matters | Other reporting responsibilities | 2007/08 | | | | 2006/07 | 2005/06 | |
| 38. | Inadequate documentation for other leave | Control | Control activities | | | | | | ✓ | | No | | | |
| 39. | Leave approved after leave is taken | Control | Control activities | | | | | | ✓ | | No | | | |
| 40. | Medical certificates not on file | Control | Control activities | | | | | | ✓ | | No | | | |
| GENERAL IT CONTROLS | | | | | | | | | | | | | | |
| 41. | No rejected transaction listings | Control | Control environment | | | | | | ✓ | | No | | | |
| 42. | No information technology policy | Control | Information system and comm. | | | | | | ✓ | | No | | | |
| INVENTORY | | | | | | | | | | | | | | |
| 43. | Inventory difference | Financial | Control activities | | | | | | ✓ | | No | | | |
| 44. | Inventory not insured | Financial | Control environment | | | | | | ✓ | | No | | | |
| 45. | Reconciliation of inventory items not performed | Control | Control activities | | | | | | ✓ | | Yes | ✓ | ✓ | ✓ |
| 46. | Store requisitions not sequentially numbered | Control | Control activities | | | | | | ✓ | | No | | | |
| INVESTMENTS | | | | | | | | | | | | | | |
| 47. | Quotations not obtained from three banks | Compliance (Non-AFS) | Control activities | | | | | | ✓ | | No | | | |

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|-----------------------------|--|----------------|---------------------|------------------------|--------------------|---------------|----------------------------------|---------|-------------------------|------------------------|----------------------------|--------------------------------|---------|--|
| | | | | Qualification | Emphasis of matter | Other matters | Other reporting responsibilities | 2007/08 | | | | 2006/07 | 2005/06 | |
| OPERATING EXPENDITURE | | | | | | | | | | | | | | |
| 48. | GRV 11225 not recorded in the correct period | Financial | Control activities | | | | | | ✓ | | No | | | |
| PROPERTY, PLANT & EQUIPMENT | | | | | | | | | | | | | | |
| 49. | Computers purchased not found in asset register | Financial | Control environment | | | | | | ✓ | | No | | | |
| 50. | No reconciliations between asset register and general ledger | Control | Control activities | | | | | | ✓ | | No | | | |
| 51. | The fixed asset register is not updated for disposals of assets | Control | Control environment | | | | | | ✓ | | No | | | |
| RECEIVABLES | | | | | | | | | | | | | | |
| 52. | SARS overpayment account | Control | Control activities | | | | | | ✓ | | No | | | |
| 53. | Difference between consumer debtors in financial statements and general ledger | Financial | Control environment | | | | | | ✓ | | No | | | |
| 54. | Incorrect classification of consumer deposit | Control | Control activities | | | | | | ✓ | | No | | | |
| REVENUE | | | | | | | | | | | | | | |
| 55. | Electricity distribution losses are not monitored | Control | Control environment | | | | | | ✓ | | No | | | |